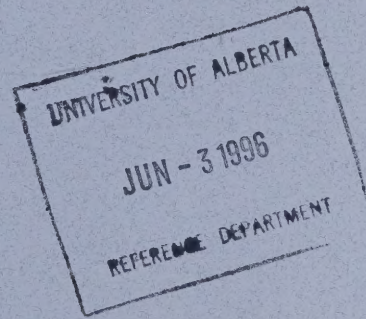









**CIRCLE ENERGY
INC.**



Annual Report

(for the year ended December 31, 1995)

CORPORATE PROFILE

-  Outstanding board of directors
-  Proven management team
-  Leading edge exploration technology
-  High reward Devonian Reef drilling program in Central Alberta
-  Well financed

Circle Energy Inc. is a publicly traded resource company actively engaged in the acquisition, exploration, development and production of oil and natural gas.

The Company was incorporated on March 11, 1994. The common shares of Circle were listed and posted for trading on the Alberta Stock Exchange on July 27, 1994 pursuant to rules and policies of the Alberta Securities Commission and the Alberta Stock Exchange governing junior capital pool offerings.

On October 31, 1994, Circle completed the acquisition of 100% of the issued and outstanding shares of Silver Sage Energy Inc., a private Saskatchewan oil and gas company with two producing oil properties located in Southwest Saskatchewan. The purchase price was \$150,000 and issuance of 4,912,000 common treasury shares of Circle at a deemed price of \$0.25 per share. The purchase of Silver Sage constituted the major transaction of Circle such that Circle ceased to be regulated as a junior capital pool company.

REPORT TO SHAREHOLDERS

1995 was a transition year for Circle Energy. While continuing to enhance the Company's existing asset base, management focused considerable effort on investment opportunities that will provide significant long term upside and be a major building block for the future.

During 1995 Circle acquired a 50% interest in approximately 30,000 acres in South Central Saskatchewan and an option to participate for a 50% interest in 10,000 acres in Southeast Saskatchewan.

Early in 1996, the Company acquired the right to carry out a geochemical survey (ground based magnetic horizontal gradient intensity (HGI) and radiometric survey) and drill seismically defined Nisku/Leduc Devonian reef prospects in Central Alberta.

In March 1996, Circle appointed Leonard A. LeSchack, an experienced geologist, geophysicist and developer of HGI and radiometric survey technology, as a director of the corporation and Vice President - Technology. Ty Pfeifer, a geologist with 20 years diverse oil and gas experience, was appointed Vice President - Business Development.

Subsequent to year end 1995, Circle completed two very successful private placements raising proceeds of \$1,093,000. In early May 1996, Circle announced it had accepted an offer to purchase its producing oil properties in Southwest Saskatchewan for \$1,200,000. Proceeds from the two private placements and from the sale of producing properties will be used to repay debt of \$822,000 and to fund Circle's geochemical survey and Devonian reef drilling program in 1996.

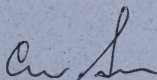
Circle is committed to creating outstanding investment value through leadership and direction of world class professionals and by utilizing leading edge technology. HGI and radiometric survey technology is state of the art science used to define the presence of hydrocarbons.

As a technology based oil and gas exploration company focused on becoming a significant oil and gas producer, Circle recognized that the potential for major discoveries exists here in North America. The rapid advancement of established exploration and exploitation science, together with more cutting edge geochemical surveys will enable progressive companies to locate and successfully exploit highly prolific reef features.

A large reef reservoir may contain hundreds of millions of barrels of oil, while smaller reefs may contain anywhere from 500,000 barrels to 15 million barrels. Most of the larger reefs have been found because they are large in area and lend themselves to discovery by means of existing seismic techniques. The same cannot be said of smaller reef structures which cannot be easily or cost effectively defined using current seismic techniques. The HGI and radiometric survey will provide critical information defining the presence of hydrocarbons and finalizing ultimate drilling locations. Leadership plus science equals value creation.

By utilizing leading edge science to reduce exploration cost and increase success rates, Circle Energy is positioning itself as a key player in North America's oil and gas exploration business.

1996 promises to be a very exciting year for Circle Energy and its shareholders. On behalf of your Board of Directors and management team we look forward to a year of managed risk and substantial reward.



C.W. (Bill) Baker
President and Chief Executive Officer
May 10, 1996

OPERATIONS HIGHLIGHTS

During the reporting period the principal assets of Circle were two producing oil properties located near Swift Current, Saskatchewan - a 100% interest in the Gull Lake property and a 22.17% interest in the Hazlet Unit. Circle's share of production from these properties averaged 153 barrels of 23 API gravity crude oil in 1995 compared to 158 barrels per day in 1994. The average price received for 1995 was \$19.11 per barrel compared to \$17.97 per barrel in 1994.

An independent Reserve Appraisal and Economic Valuation estimates Circle's proved producing reserves at 363,000 barrels as of January 1, 1996 compared to 425,000 barrels as January 1, 1995.

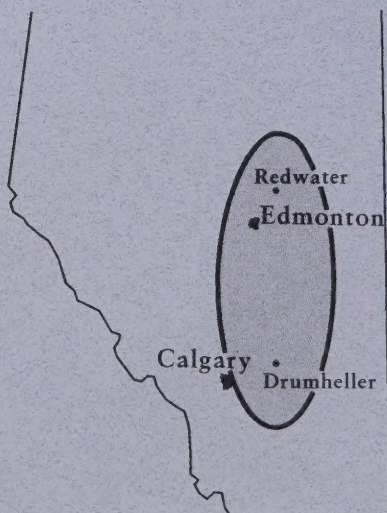
On May 6, 1996 Circle accepted an offer to purchase its entire interest in both the Gull Lake property and the Hazlet Unit for \$1,200,000. The sale is subject to regulatory and shareholder approval. Proceeds from the sale will be used to repay debt and to fund 1996 exploration programs.

During 1995 Circle acquired a 50% interest in approximately 30,000 acres of exploration lands in South Central Saskatchewan. We are considering several exploration options including farm-in proposals. We expect seismic evaluation and initial drilling to be carried out in 1996.

In December 1995 Circle announced that it had formed a strategic association with United Compass Resources Ltd. to pursue oil and gas joint venture opportunities. Initially Circle managed a farm-in agreement on behalf of United Compass whereby United Compass could earn up to a 50% interest in approximately 60,000 acres in Southeast Saskatchewan. Circle had the option to participate for up to 50% of the interest of United Compass. The farm-in agreement was terminated by mutual agreement of the parties with United Compass receiving a 100% interest in approximately 10,000 acres from the original farm-in lands. Circle continues to be operator and agent for United Compass in managing the exploration of these lands and has the option to participate for up to 50% in future development. The land is located on trend with existing production and has excellent potential.

On February 6, 1996, Circle entered into an option agreement to drill one well and assess the potential of several other seismically defined Nisku/Leduc Devonian Reef prospects in Central Alberta. The prospects are situated between and immediately adjacent to existing Devonian producing wells which typically produce at rates of 200 to 400 barrels of oil per day and contain reserves of 500,000 barrels of oil per well. Circle will carry out a HGI and radiometric survey and drill one well to earn the right to drill on additional prospective lands. We are mobilized to carry out the survey immediately and drilling will commence upon completion of the survey. Predicated upon success of the first well, it is believed an additional 4 to 6 wells would be required to fully exploit the prospect lands.

PROSPECTIVE AREA



ALBERTA

Negotiations are ongoing with respect to several other highly prospective exploration opportunities in Alberta and in the Southwest United States which are prime candidates for the use of HGI and radiometric survey technology.

FINANCIAL REVIEW

Circle Energy commenced doing business in July 1994 upon completion of its initial public offering. Until October 31, 1994 when it acquired Silver Sage Energy Inc., Circle did not conduct operations other than identification, evaluation and completion of the acquisition of oil and natural gas businesses and assets. The acquisition of Silver Sage by Circle is considered to be a common control transaction and has been accounted for on the continuity of interest basis. The consolidated financial statements contained in the Annual Report reflect the assets and liabilities and results of operations at their historical amounts in the books of the respective combining companies.

Silver Sage commenced operations with the acquisition of certain petroleum and natural gas properties at the end of 1993.

Revenue for 1995, net of royalties, increased from \$663,256 in 1994 to \$749,131 due to higher annual oil sales volumes and higher sales prices, offset in part by higher royalties. Expenses increased from \$735,779 in 1994 to \$910,412 in 1995 resulting in a loss before income tax of \$161,281 in 1995 compared to a loss of \$75,523 in 1994. The increase in expense is primarily the result of higher general and administrative expense due to the accrual of \$96,000 for salaries in 1995 compared to no salaries in 1994. In addition a full year of increased corporate activity in 1995 resulted in higher office rent and higher telephone and communication expense compared to 1994. General and administrative expense levels for 1995 are reflective of minimum costs to maintain current corporate activity levels.

Funds provided by operations decreased to \$5,725 in 1995 from \$95,029 in 1994 due primarily to increased general and administrative expense. Capital expenditures for 1995 amounted to \$198,436 principally due to the installation of gas driven electrical generating equipment at the non-operated Hazlet Unit and several small productivity improvement projects at the Gull Lake property.

At December 31, 1995 the Company had a working capital deficit of \$893,071 resulting from the classification of long term debt of \$822,000 due July 15, 1996 as a current liability and higher than normal accounts payable and accrued liabilities. Accounts payable and accrued liabilities include \$96,000 for 1995 salaries unpaid at year end. The salaries are due to two officers of the Company who agreed to defer payment until the Company was in financial position to pay cash salaries. Subsequent to year end, \$48,000 was paid on account of 1995 salaries and the Company plans to pay the balance of 1995 salaries and unpaid 1996 salaries by June 30, 1996.

On April 30, 1996 the Company completed a private placement of 1,047,779 units raising gross proceeds of \$943,000. The price was \$0.90 per unit with each unit consisting of one common share and one warrant. Two warrants entitle the holder to acquire one common share at a price of \$1.00 per share until July 29, 1996.

On May 2, 1996 the Company completed a second private placement of 150,000 units raising \$150,000. The price was \$1.00 per unit with each unit consisting of one "flow-through" common share and one warrant. Two warrants entitle the holder to acquire one "flow-through" common share at a price of \$1.20 per share until July 31, 1996.

On May 6, 1996 the Company accepted an offer to purchase its producing oil properties for \$1,200,000. The sale is subject to regulatory and shareholder approval and is scheduled to close on June 28, 1996. A portion of the proceeds from the sale will be used to pay the \$822,000 long term debt.



Consolidated Financial Statements of

CIRCLE ENERGY INC.

Years ended December 31, 1995 and 1994

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Circle Energy Inc. as at December 31, 1995 and 1994 and the statements of loss and deficit and changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1995 and 1994 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

KPMG Peat Marwick Thorne

Chartered Accountants

Calgary, Canada
May 6, 1996

CIRCLE ENERGY INC.

Consolidated Balance Sheets

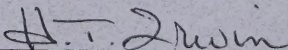
December 31, 1995 and 1994

	1995	1994
Assets		
Current assets:		
Cash	\$ 20,204	\$ 54,349
Accounts receivable	41,749	55,974
	61,953	110,323
Capital assets (note 3)	917,056	910,191
Deferred financing costs (net of amortization of \$31,263; 1994 - \$15,223)	8,837	24,877
	<u>\$ 987,846</u>	<u>\$ 1,045,391</u>
Liabilities, Capital and Deficit		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 117,024	\$ 43,007
Income taxes payable	16,000	18,176
Long-term debt (note 4)	822,000	—
	955,024	61,183
Long-term debt (note 4)	—	822,000
Provision for site restoration	49,902	24,507
Deferred income taxes	16,000	—
Share capital and deficit:		
Share capital (note 5)	250,900	228,400
Deficit	(283,980)	(90,699)
	(33,080)	137,701
Subsequent events (note 8)		
	<u>\$ 987,846</u>	<u>\$ 1,045,391</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:

 Director

 Director

CIRCLE ENERGY INC.

Consolidated Statements of Loss and Deficit

Years ended December 31, 1995 and 1994

	1995	1994
Revenue:		
Oil sales	\$ 1,052,396	\$ 913,133
Royalties	(303,265)	(249,877)
	749,131	663,256
Expenses:		
Operating	452,557	442,037
General and administrative	224,396	60,151
Interest on long-term debt	66,493	63,086
Depletion and depreciation	141,571	145,998
Provision for site restoration	25,395	24,507
	910,412	735,779
Loss before income taxes	(161,281)	(72,523)
Income taxes (note 6):		
Current	(16,000)	(18,176)
Deferred	(16,000)	—
	(32,000)	(18,176)
Loss for the year (note 7)	(193,281)	(90,699)
Deficit, beginning of year	(90,699)	—
Deficit, end of year	\$ (283,980)	\$ (90,699)

See accompanying notes to consolidated financial statements.

CIRCLE ENERGY INC.

Consolidated Statements of Changes in Financial Position

Years ended December 31, 1995 and 1994

	1995	1994
Cash provided by (used in):		
Operations:		
Net loss	\$ (193,281)	\$ (90,699)
Items not involving cash:		
Depletion and depreciation	141,571	145,998
Provision for site restoration	25,395	24,507
Amortization of deferred financing costs	16,040	15,223
Deferred income taxes	16,000	—
Funds provided by operations (note 7)	5,725	95,029
Change in non-cash operating working capital:		
Accounts receivable	14,225	(55,974)
Accounts payable and accrued liabilities	74,017	43,007
Income taxes payable	(2,176)	18,176
	91,791	100,238
Financing:		
Long-term debt	—	822,000
Issue of share capital	22,500	228,400
Deferred financing costs	—	(40,100)
	22,500	1,010,300
Investments:		
Additions to capital assets (net of proceeds on disposal)	(148,436)	(1,056,189)
Increase (decrease) in cash	(34,145)	54,349
Cash, beginning of year	54,349	—
Cash, end of year	\$ 20,204	\$ 54,349

See accompanying notes to consolidated financial statements.

CIRCLE ENERGY INC.

Notes to Consolidated Financial Statements

Years ended December 31, 1995 and 1994

1. Commencement of operations and basis of presentation:

Circle Energy Inc. (the "Company") was incorporated on March 11, 1994 pursuant to the provisions of the Business Corporations Act (Alberta). On June 21, 1994 the Company completed its initial public offering and became a "junior capital pool company" in accordance with the policies of the Alberta Securities Commission and the Alberta Stock Exchange.

On August 1, 1994, the Company entered into an agreement to acquire all of the issued and outstanding shares of Silver Sage Energy Inc. ("Silver Sage") for consideration of \$1,378,000 consisting of 4,912,000 common shares at an ascribed value of \$0.25 per share and cash of \$150,000 (the "Acquisition"). This transaction was approved at a Special Meeting of the shareholders of the Company on October 25, 1994 and constituted the Company's Major Transaction (as defined by Policy 4.11 of the Alberta Securities Commission).

As the shareholders of Silver Sage held a controlling interest in the common shares of the Company after the issue of shares on the Acquisition, Silver Sage is considered to be the acquirer for accounting purposes. As individuals controlling more than 67% of the shares of Silver Sage prior to the completion of the Acquisition were in a position to significantly influence the operations and activities of the Company, the Acquisition is considered to be a common control transaction and has been accounted for on the continuity of interests basis. Accordingly, these consolidated financial statements reflect the assets and liabilities and results of operations at their historical amounts in the books of the respective combining companies.

Silver Sage commenced operations with the acquisition of certain petroleum and natural gas properties at the end of 1993.

2. Summary of significant accounting policies:

(a) Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiary.

(b) Petroleum and natural gas operations:

The company follows the full cost method of accounting for petroleum and natural gas operations, whereby all costs of exploring for and developing petroleum and natural gas reserves, net of related government grants, are capitalized. Such costs include land acquisition costs, geological and geophysical costs, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells, interest costs on unproved properties, and overhead charges directly relating to acquisition, exploration and development activities.

Costs of acquiring and evaluating unproved properties are initially excluded from costs subject to depletion. Unproved properties are assessed regularly to ascertain whether impairment should be added to costs subject to depletion.

CIRCLE ENERGY INC.

Notes to Consolidated Financial Statements, page 2

Years ended December 31, 1995, and 1994

2. Summary of significant accounting policies (continued):

(b) Petroleum and natural gas operations (continued):

Capitalized costs including the costs of production equipment, are depleted and depreciated on the unit-of-production method based on the estimated net proved reserves as determined by the Company's independent petroleum engineers. Petroleum and natural gas reserves and production are converted into equivalent units based upon estimated relative energy content.

Depreciation of office equipment is provided on the declining balance method at the rate of 20%. Computer equipment is depreciated on the declining balance method at a rate of 33 - 1/3%.

Total capitalized costs less accumulated depletion and depreciation, cumulative provisions for site restoration costs and deferred income taxes are limited to an amount equal to the estimated future net revenue from proved reserves (based on prices and costs at the balance sheet date) plus the cost, net of impairments, of unproved properties, less estimated future general and administrative expenses, financing costs, site restoration costs and income taxes.

Proceeds from the sale of petroleum and natural gas properties are applied against capitalized costs, with no gain or loss recognized, unless such a sale would significantly alter the rate of depletion and depreciation.

Future site restoration costs are provided on a unit-of-production basis. These costs are based on year end estimates of anticipated costs of site restoration. Actual restoration costs are charged to the site restoration provision as incurred.

(c) Joint interest operations:

A significant portion of the Company's exploration and production activities are conducted jointly with other entities and accordingly the accounts reflect only the Company's proportionate interest in such activities.

(d) Deferred financing costs:

Deferred financing costs are amortized on a straight-line basis over a two and one half year period and are included in interest expense.

CIRCLE ENERGY INC.

Notes to Consolidated Financial Statements, page 3

Years ended December 31, 1995, and 1994

3. Capital assets:

	Cost		Net	
	1995	1994	1995	1994
Petroleum and natural gas properties	\$ 878,716	\$ 805,800	\$ 665,677	\$ 687,842
Production equipment	311,683	236,509	242,091	209,132
Office equipment	14,225	13,880	9,288	13,217
	\$ 1,204,624	\$ 1,056,189	\$ 917,056	\$ 910,191

4. Long-term debt:

The loan is payable to Prairie Security Fund Ltd. and is due July 15, 1996. Interest is charged at the rate of 8% per annum and is payable monthly. The loan is secured by substantially all of the assets of the Company. The debt will be repayed when it becomes due with proceeds from the sale of oil and gas properties (note 8).

5. Share capital:

The Company's authorized share capital consists of an unlimited number of common shares without nominal or par value.

Issued and outstanding:

	Number of Shares	Consideration
Issued:		
For cash	2,200,000	\$ 110,000
For cash on completion of initial public offering	2,000,000	200,000
On acquisition of subsidiary (note 1)	4,912,000	100
For cash on exercise of stock options	50,000	5,000
Issue costs	-	(86,700)
Balance, December 31, 1994	9,162,000	228,400
For cash on exercise of stock options	200,000	22,500
Balance, December 31, 1995	9,362,000	\$ 250,900

At December 31, 1995, options for 731,000 shares (1994 - 751,000) were outstanding at exercise prices ranging between \$0.10 and \$0.15 per share, exercisable at various dates through to June 2000.

CIRCLE ENERGY INC.

Notes to Consolidated Financial Statements, page 4

Years ended December 31, 1995, and 1994

6. Income taxes:

The income tax provision differs from the income taxes which would result had the Company applied the statutory rate of 45.84% (1994 - 45.84%) to loss before income taxes. The differences between expected and actual tax provisions are as follows:

	1995	1994
Loss before income taxes	\$ (161,281)	\$ (72,523)
Expected income tax expense	(73,931)	(33,245)
Increase (decrease) in income tax expense resulting from:		
Non-deductible crown charges	130,406	107,697
Resource allowance	(33,617)	(40,363)
Excess of expected tax rate over small business rate	-	(31,977)
Depletion not deductible for income tax purposes	7,776	9,585
Other	1,366	6,479
Actual income tax expense	\$ 32,000	\$ 18,176

7. Loss and funds from operations per common share:

	1995	1994
Loss	\$ (0.02)	\$ (0.01)
Funds from operations	\$ 0.00	\$ 0.01

Per share information is calculated using the weighted average number of shares outstanding of 9,237,890 for the year ended December 31, 1995 (1994 - 6,682,833).

8. Subsequent events:

The Company has entered into an agreement to dispose of certain oil and gas properties for proceeds of \$1,200,000. These proceeds will be used to repay the long-term debt when it becomes due (note 4).

The Company has completed a private placement of 1,047,779 units for proceeds of \$943,000. Each unit consists of one common share and one warrant. Two warrants entitle the holder to acquire one common share at a price of \$1.00 per share until July 29, 1996. These proceeds will be used to carry out a drilling program in Central Alberta.

The Company has completed a second private placement of 150,000 units for proceeds of \$150,000. Each unit consists of one flow-through share and one warrant. Two warrants entitle the holder to acquire one flow-through share at a price of \$1.20 per share until July 31, 1996.

CORPORATE INFORMATION

DIRECTORS

C.W. (Bill) Baker
President
Circle Energy Inc.
Calgary, Alberta

Gary Bosgoed
President
Bosgoed Project Consultants Ltd.
Regina, Saskatchewan

Leonard A. LeSchack
Vice President - Technology
Circle Energy Inc.
Calgary, Alberta

Richard DeGroat
Managing Director
Tom Capital
Calgary, Alberta

Kirk Henderson
Managing Director
The Jim Pattison Group
Vancouver, B.C.

H. T. (Tom) Irwin
Vice President
Circle Energy Inc.
Calgary, Alberta

Victor Redekop
Vice President Finance
Simmons Group Inc.
Calgary, Alberta

HEAD OFFICE

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Fax: (403) 777-1930

EXCHANGE LISTING

Alberta Stock Exchange
Symbol: CEN

AUDITORS

KPMG Peat Marwick Thorne

SOLICITORS

Burstall Ward

BANKERS

Royal Bank of Canada

REGISTRAR & TRANSFER AGENT

Montreal Trust Company of Canada

ANNUAL MEETING

Shareholders are invited to attend the company's Annual General Meeting
which will be held in the 2nd Floor Conference Room
at 500 4th Avenue S.W., Calgary, Alberta
on Thursday, June 20th, 1996 at 10:00 a.m. (Calgary time)

